



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. March 29, 2005. The following members were present:

Jody B. Olson  
Dennis Johnson  
Pamela I. Ahrens  
Clifford T. Hayes  
J. Kirk Sullivan

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Bill Palumbo  
Dennis Fitzpatrick  
Brian McGrath  
Jim Shakelford  
Brent Nye  
Vickie Burnet  
Michael Barcelo  
Charlie Brown  
James Coleman  
Renee Sessler  
Vikki Reynolds

Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
IEA  
Boise Schools  
IPEA  
Idaho Trust National Bank  
REAI  
PERC Retired Teachers  
Idaho School Boards Assn  
IASA

Karl Malott  
Geoff Bridges  
Doug Bates  
Mike Boren

PFFI  
Milliman  
Clearwater  
Clearwater

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the February 22, 2005, regular meeting of the Retirement Board after correction of a fiscal date return to read "for the calendar year-to-date."

## PORTFOLIO

Monthly Portfolio Update: Chief Investment Officer Robert Maynard reviewed the reports he had previously provided to the Board. Comments from that report and from his presentation included:

The markets have cooled off considerably in the past month due to increasing inflation expectations, record oil prices and expectations of slower (but still positive) economic and corporate earnings growth. After reaching returns above 10%, the PERSI fund is down 2.2% for the month to 7.4%, 2% below the level that it was at when the Board last met.

PERSI's major additional tilts have not done well this month, with emerging markets and global equities having a particularly rough few weeks. For a change, the active US only equity managers are collectively ahead of their benchmarks for the month – which indicates some substantially different market dynamics.

Bernstein Emerging continues to lead all managers in both absolute performance with 41.7% for the fiscal year-to-date, as well as relative performance (compared to the benchmarks) with a 12.9% outperformance of its benchmarks, while the SGAM, TCW Domestic and Tukman portfolios have the worst relative performance. Tukman also has the poorest absolute performance for the fiscal year-to-date.

The fixed income managers have now completed the initial positioning of the portfolios and short-term results have been slightly positive with Bridgewater showing the greatest outperformance. Of the equity manager hires, Bernstein, both with the emerging

markets portfolio and the global equity portfolio and Mondrian International Equity have shown the best absolute and relative performance.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations.

Mr. Maynard told the Board that we will be hosting a delegation from Vietnam Social Security in July, arranged through the International Pension Exchange Program which is coordinated by the Pacific Pension Institute. They will meet with Staff and attend the July Board meeting.

The annual review of the Idaho Commercial Mortgage Program is on schedule and results will be presented to the Board at the May meeting.

Mr. Maynard and Investment Officer Sugiyama had informative meetings with our investment managers located in London. This was their first visit to the London offices of Mondrian, which went well. They also met with investment manager T. Rowe Price who continues to experience internal personnel changes.

Chairman Olson asked about the changes at Mellon. Mr. Maynard said the divestiture is on the recordkeeping side, not the custody side.

Investment Manager Comments: Before a short break, the Chairman invited managers who were present to comment on the markets and the economy. Most felt that inflation would moderate after this year and expressed hope that the Federal Reserve Board would not continue to raise rates. All agreed that the greater transparency and ease of obtaining information makes it more difficult to find exceptional investment opportunities.

#### EXECUTIVE DIRECTOR

Legislative Review: Copies of Mr. Winkle's weekly review of legislation affecting PERSI had been provided earlier to the Trustees. Mr. Winkle said the retiree return-to-work proposal and giving prosecuting attorney police officer classification are two issues which will most likely be proposed again. Those bills were not passed this year. The PERSI budget appropriation has been approved.

School Sick Leave: Reviewing his March 22, 2005 memorandum to the Board, Mr. Winkle said he has been working with a task force comprised of representatives from the School Boards Association, The School Administrator's Association and the Idaho Education Association. Renee Sessler of the Idaho School Board's Association addressed the Board and

presented the recommendations of the Task Force. The recommendation was to establish a contribution rate matrix over the next year that reflects each school district's employer liability to the system; to establish a minimum long-term funding goal of a 15-year amortization of the unfunded liability and phasing in increased contribution rates to 1.28% over five years. School Trustee Jim Alexander from Mountain Home said teacher contracts are signed in advance and asked for a phased-in approach to sick leave contribution increases.

Trustee Hayes said that while the number of days and unlimited accumulation of sick leave that can be used for retiree health premium payments has a definite impact on school budgets, PERSI does not direct those decisions. Ensuring that the sick leave contributions provide the funds necessary for the health of the fund is PERSI's role. Ms. Sessler asked the Board for consideration as to the impact on school budgets if rates were increased immediately.

Trustee Johnson commented on the recommended 15-year amortization schedule. There was discussion as to why there would be a different amortization level cap on the sick leave fund than on the PERSI Base Plan. He also asked whether all participants in the fund have been included in the discussion of this issue. Several Trustees indicated they had not been aware of the different liabilities of the various school districts. Mr. Winkle noted the sick leave fund for State employees was at about a 10-year amortization and may be a better basis of comparison of funding. Mr. Winkle said our ability to provide actual data instead of estimates to our actuaries this year resulted in the most accurate study of the sick leave program that we have made. There were also questions about how charter schools are handling the issue. Mr. Winkle will meet again with the Task Force, work out a matrix, and bring a recommendation to the Board in April. The Board directed Mr. Winkle to discuss the issue with fiscal representatives of the Department of Education and the Board of Education to ensure they are aware of any planned rate increases.

Status Update: Mr. Winkle reviewed the memorandum dated March 21, 2005, that had previously been provided to the Trustees. The IT department is working on several improvements to the Galena system to provide better customer service for our active members and retirees. Employees are working directly with our consultants on the Business Process Review project. All the meetings are open to staff who are encouraged to participate and who are providing essential content information as the PERSI Answer System is designed.

BPR Update: Membership Manager Judy Aitken told the Trustees that we will reorganize our staff with three service centers. She will manage the PERSI Answer Center (PAC), Susan Shaw will manage the PERSI Processing Center (PPC) and Debbie Buck will manage the Employer Service Center (ESC). The ESC has already begun implementation of a "first-in-first-out"

process for some employer transmittals. Ms. Aitken and another staff member toured the Texas and Minnesota retirement systems to see first-hand how their call centers work. Interested employees have also toured call centers and imaging and workflow processes in the Boise area including Trustee Johnson's offices and the State Insurance Fund. Employees have selected the section where they wish to work. All of our employees have received Change Management training. The PAC is in the design and implementation stage. The staff meets weekly with the consultant to determine team goals, the physical space set up, training they'll need and other implementation details. The processing center design and implementation stage is expected to begin in May.

Trustee Ahrens said PERSI staff are good about answering questions and responding to the needs of our members. There is lots of information including retirement planning tools on the website and it is easy to navigate.

Trustee Hayes asked what the information accuracy rate is in systems where 95% of incoming calls are handled without being transferred. Ms. Ahrens did not have statistics, but said PERSI calls will be recorded and can be reviewed for accuracy. On-the-spot training will be provided to all those working in the PAC as new questions arise.

June Investment Meeting: Following a short discussion, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson, and unanimously approved, the Board cancelled the PERSI Retirement Board meeting previously scheduled for June 28, 2005. There will be a PERSI Investment Manager meeting June 8-10 in Boise which the Trustees plan to attend.

#### FISCAL:

Administrative and Portfolio Reports: Financial Officer James Monroe said staff continues to work on changes we need to make to comply with GASB 40 reporting requirements. He expects to bring them to the Board in April.

He reviewed the administrative budget and portfolio expense reports which had previously been furnished to the Board. All the operating expenses are in the normal ranges.

#### LEGAL:

Temporary Contribution Rules: Deputy Attorney General Goodsell provided copies of the Temporary Contribution Rules which delay the increase in contribution rates for one year. By motion duly made by Trustee Ahrens and seconded by Trustee Johnson, the Board unanimously adopted the rules as set forth in the Notice of Rulemaking Docket No. 59-0103-0501.

#### OTHER BUSINESS:

Sick Leave Discussion: Trustee Sullivan expressed concern about the sick leave policy and whether all the questions could be answered in time to

make a decision at the April meeting. Mr. Winkle will work with the interested parties and gather answers to Trustee questions during the coming weeks.

Retiree COLA's: Retiree Charlie Brown thanked the Board on behalf of the retired members for funding the retiree cost-of-living-adjustment and the retro-COLA. Retirees are appreciative of the Board's effort to keep the buying power of their benefit at 100%.

FUTURE MEETINGS:

**Thursday**, April 21, 2005, 8:30 a.m., Boise - PERSI office

**Thursday**, May 26, 2005, 8:30 a.m., Boise – PERSI office

NO REGULAR MEETING WILL BE HELD IN JUNE 2005

**Thursday**, July 21, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, August 23, 2005, 8:30 a.m., Boise - PERSI office

**Friday**, September 23, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Monday, December 5, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 10:35. there being no further business to come before the Board, by motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved by members present, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director